

## 203 K Testimony by Jerilyn Perine

Submitted to:

Subcommittee on Oversight and Investigations  
U.S. House of Representatives  
Committee on Financial Services  
September 10, 2001 10:00AM  
2<sup>nd</sup> Floor Art Gallery  
Adam Clayton Powell State Office Building  
163 West 125<sup>th</sup> Street, New York, New York

My name is Jerilyn Perine and I am the Commissioner of New York City's Department of Housing Preservation and Development. I would like to thank Chairwoman Kelly, and the other members of the subcommittee for inviting me to offer testimony this morning.

You have asked that I address my agency's participation in the 203(k) program, its problems and what recommendation we would offer to resolve the problems we are facing today.

Let me begin by providing the committee with a brief overview of our agency's functions so that you can better understand the role that we play locally. Our agency is a unique municipal housing agency because we encompass planning, development and enforcement functions related to housing and community development. This includes providing city owned property along with construction and permanent financing for affordable housing development as well as for retail and commercial development in underserved communities. Over 68,000 units have been renovated or newly constructed through our programs since 1994. In addition we place a great emphasis on housing preservation through below market loans to owners in need of rehabilitation financing, direct counseling and education for owners to help them to become better managers and we operate the most extensive housing enforcement system in the country, handling over 300,000 calls a year, mostly from tenants and conducting over 200,000 inspections which resulted in 322,000 housing code violations last fiscal year. If not corrected, our own Emergency Repair Program carries out emergency repairs that result in a lien against the property. With a special team of attorneys, we litigate against owners to obtain civil or criminal penalties and court ordered repairs and will seek receivers to ensure that the rent roll is used to provide essential services and repairs.

In addition since 1994 we have been aggressively returning to private ownership, the stock of dilapidated housing that came into city ownership because of tax delinquency. Located primarily in Harlem, the South Bronx and Central Brooklyn, these buildings provided housing for some of our poorest families, but were typically in the worst condition. Since 1994 over 22,000 units in 1500 buildings have been returned to responsible private ownership, with funds sufficient to provide for extensive renovation

and with operating or rental subsidies sufficient to ensure that existing tenants would not be displaced, rents would remain affordable and the buildings would be financially viable into the future. Where feasible we have turned vacant buildings into opportunities for homeownership for working families.

We have relied on local entrepreneurs with extensive experience in property management in these communities, neighborhood based not-for-profit housing development organizations with proven track records, and the tenants themselves when they agree to participate in a rigorous training program to learn to self manage their buildings in order to become cooperative owners.

HPD has been actively involved in this type of work since 1978 and has amassed an impressive track record. From a once high of 89,000 units of abandoned tax foreclosed property in city ownership, today there are approximately 13,000 units left in city ownership and they are all funded over the next few years for rehabilitation and sale. In addition our programs have helped to fuel the development of growth of over 100 locally based community organizations involved in this work and an extensive network of local property managers and developers. While 60% of our housing stock was built before 1947, the dilapidation rate is only 1%, the lowest it has been since the U.S. Census Bureau has been measuring it in the mid 1960's.

Despite our agency's extensive involvement in housing issues in the City, we played no role in the 203(k) program, and were unaware of the lending activity that was occurring. We became aware of the issue, as others locally did, when tenant evictions and inappropriately high sales prices began to come to light in some Harlem properties.

29 organizations participated in the 203(k) program in New York City, borrowing funds for 593 properties. Only 2 of them were experienced not for profit housing developers and managers that we have worked with over the last two decades, involving only 17 of the 593 properties. The remaining 27 organizations played no role in any of our programs and had no track record in housing development that we were aware of.

So the core problem with the program I believe was a simple one – no local involvement. And that lack of local involvement allowed organizations with no experience, to participate in a program which sought to carry out an important – but complex task – the renovation and return to responsible ownership of troubled housing, often occupied with vulnerable tenants. At best these organizations had no capacity or skills to carry out the program, at worst they were involved in a corrupt scam to defraud the federal government. The results on the streets of our city sadly are the same. Nearly 600 properties, nearly one half occupied with tenants, have been left without clear management to handle day-to-day maintenance and operation, without rehabilitation and an uncertain future.

Of the 593 properties, the vast majority, 346, is located in Brooklyn, primarily in Bushwick and Bedford Stuyvesant. Another 190 are located in Manhattan, primarily Harlem. 40 are located in Queens, including those in the Rockaways, which are little more than bungaloes, and the remaining 17 are in the Bronx. 285 of these properties are vacant, 290 are occupied and 18 are vacant lots. Following inspections of all of the buildings, only 59 were rated to be in good condition. The rest were found to be in fair or poor condition.

Since January 1, 1998 our housing code inspectors have placed over 18,900 housing code violations on these properties. We have expended over \$1 million for emergency repairs which our inspectors discovered and the owners failed to correct. 13 of these buildings have conditions that are so bad that either the tenants themselves or our attorneys have gone to court to seek a receiver to ensure that the rent roll is spent on providing essential services and repairs.

In addition these buildings are now threatening the significant investment that we have already made on many of the blocks where they are located.

Since early this year, we have worked very closely with HUD officials, both in the New York office as well as in Washington to address the short term and long term issues. We have crafted protocols so that emergency repairs can be addressed expeditiously. We have exchanged information regarding inspections and foreclosure actions so that we can coordinate our efforts effectively. And we have worked to craft a solution that hopefully will result in the renovation of these properties and their return to responsible private ownership.

For our part we have indicated that we are willing to take on the responsibility of structuring financing which leverages private capital and ensures affordability for existing tenants, review the design and scope of work for the property's renovation, identify competent developers, both for profit and not for profit, and ensure that the work is carried out properly. In return we have requested that HUD provide sufficient capital to carry out this work, without any administrative fees to our agency as are customary in HUD programs.

In short we are suggesting that both agencies do what they do best and work together to obtain the desired results.

October 1<sup>st</sup> signals the beginning of our official "heat season". As of that date owners of rental property in NYC must maintain adequate heat as the temperature outside begins to drop. It marks our busiest period in enforcement and last winter the 203 (k) buildings represented a special challenge. We are precipitously close to the beginning of a new heat season and hope that these properties will have a more certain future this winter than they did last winter.

We have seen an unprecedented willingness from HUD to work through the problems resulting from this program and we have been grateful that high-level HUD officials have spent extensive time and effort on this problem. As a result we have been able to address many other long-standing local issues that we had struggled with. We have had an ongoing meaningful dialogue and while there are still some details to resolve we believe that there is a genuine commitment to continue this process through to its successful conclusion.

Thank you for allowing me to address you this morning and I would be happy to answer any questions that you may have.